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SUBJECT: QUITO'S NEW AIRPORT MAKES PROGRESS BUT FACES BIG
CHALLENGES

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¶1. (SBU) Summary: The construction of Quito's new airport has made significant progress. The project is large and complex, however, dealing with an unpredictable political environment, sensitive community relations, and environmental challenges. The builders have made several recent missteps that attracted negative press coverage and scrutiny from GOE officials. In addition, outstanding elements like a municipal access road and a new public security facility threaten to delay or otherwise disrupt the new airport's opening in October 2010. End summary.

Construction Status

¶2. (U) Quito's new airport is a massive project that covers 351 hectares and has a projected cost of roughly \$600 million. The GOE has been holding the land for this project since the 1980s but only began construction in 2006. Since that date significant progress has been made, and the project is now 42% complete. The builders say that over 90% of the required materials have been purchased and the initial earth works, which consisted of leveling the site plateau for runways and buildings, are 91% complete. In addition, the builders say that they have nearly finished pouring concrete for the 38,000 square meter passenger terminals and the control tower. They expect to complete the structured steel frames for the terminals in February 2009. They point to progress installing necessary infrastructure for telecommunications, electricity, water, sewage, and rainwater drainage. The consortium has also nearly completed the access road into the site. The builders say the project is now mostly on schedule, with only slight delays in the infrastructure elements, which they expect to correct in the next few months.

¶3. (U) The Quito airport project has been controlled since 1999 by the Quito municipality-controlled entity Corpaq, which signed a concession with the Canadian Government entity Canadian Commercial Corporation (CCC) to develop the airport. CCC in turn hired the Quiport consortium to manage the current airport and build the new one. Quiport is made up of Aecon (a Canadian company), Andrade Gutierrez (Brazilian) and Houston Airport Systems (U.S.). The project has financial backing from the U.S., Canadian, and multilateral lenders OPIC, ExIm Bank, Inter-American Development Bank, and Export Development Canada (RefTel A). The builders stress that the project is following U.S. and Canadian labor and environmental specifications, which has proved challenging in Ecuador. Quiport acknowledges that there has been some friction over meeting the lenders' expectations, but company representatives say that they are committed to satisfying these requirements and say

that they have so far been able to sort out any disagreements.

Construction Progress and Dust Problems

¶4. (U) The project's most visible problem has been controlling the large amounts of dust that the construction creates. On most days the site throws up large clouds of brown dust that can be seen for miles. This has sparked complaints from local farming communities and has led to negative press coverage and criticism from politicians as well as environmental and health experts. Quiport says that much of the dust stems from the necessary earthworks. It notes as well that the site's sandy, volcanic soil is difficult to work with, and that construction delays have dragged out the problem. Quiport initially budgeted \$400,000 for dust control measures, but the company has already spent over \$2 million. Quiport says that when asphalt is laid for the runways, grass is planted, and water systems are installed, it should significantly reduce the dust levels. Quiport is currently taking construction bids and expects to begin laying down asphalt in June 2009. Company officials say that most construction will be completed around the end of 2009, and they plan to spend the first half of 2010 on testing and certification of the new airport.

Public Stumbles

¶5. (SBU) Along with its handling of the dust clouds, Quiport has been criticized by politicians and airlines for significantly raising airport fees at the existing Mariscal Sucre airport to pay for the new airport. Since 2006, airport departure fees have risen

from \$25 to \$40.80 on international flights, an increase of 63%. In addition, it has raised the landing, parking and other fees that it charges the airlines. Quiport recently attempted to improve its public image with a series of glossy newspaper inserts touting the benefits of the new airport. This effort was derailed, however, by an announcement in November that Quiport planned once again to raise departure fees to \$44.30. The decision was announced without consulting Quito Mayor Paco Moncayo, a prominent supporter of the project. Moncayo sharply criticized the fee hike, and Ecuador's Prosecutor General opened an investigation, leading Quiport to delay indefinitely the increase.

¶6. (U) On January 6th, 2009, the Contraloria of Ecuador (similar to the U.S. GAO) issued a report criticizing the project for cost overruns. According to the Contraloria, the contracted cost for constructing the terminals is \$100 million more than appropriate, and called for contracts to be renegotiated. It also criticized the use of \$15.7 million of GOE funds for an airport access road, consulting, and reforestation, which it said should have been paid by Quiport. Quiport declined to comment on the report, saying it was directed at the government airport authority Corpaq. Politicians seized on the report, however, saying that the cost overruns were actually much higher and arguing that it justified renegotiating the construction contract (Reftel D).

Access Road Could Hinder Airport Opening

¶7. (U) The new municipal road to the airport has the greatest potential to cause major delays in the project. This road will be a direct route from downtown Quito and should result in a travel time of only 15 minutes. The road is the responsibility of the municipality, however, and as of yet, no significant progress has been made. Quiport officials say there is still sufficient time for the road to be completed by October 2010, but this appears unlikely. The land for the road is still not secured, and the city is still reviewing construction bids for what most people expect to be a complicated project involving the construction of three bridges (Reftel B). There are also doubts about the municipality's ability to pay for the project, although it does have support from the Andean Development Fund (CAF). The existing route to the new airport is a narrow and winding road that takes at least 45 minutes, and much more during rush hour. Quiport officials say they would consider delaying the airport's opening if the road is not completed on time, since using the existing road would create significant traffic and image problems.

Public Security Facility Could Also Cause Complications

¶8. (SBU) The public security facility (Armed Forces and Police) at the new airport could also cause complications. The Ecuadorian military needs to build the new facility. No work has been completed so far, and additional delays will increase costs, since it will require working around completed civilian structures. We believe that the Ecuadorian military does not currently have the funds to complete this project. Some have speculated that the military could remain at the current airport, but for technical flight reasons this is impossible (Reftel B). The military might be able to relocate some of its assets to the airport in Latacunga, which is roughly 90 minutes south of Quito. It is unclear if the GOE, or international regulators would certify the airport if the public security facility is not built, however, since it will house the airport police.

U.S. Airlines Critical of the Project

¶9. (SBU) U.S. airlines complain that Quiport and the GOE have not provided them with sufficient information about navigation aids and flight patterns for operations at the new airport. Quiport and GOE officials stress the benefits of the project, saying that it will be a modern facility and will eliminate the hazards of landing planes in a crowded urban center (Reftel A). Airline officials dispute these claims, however, saying that the new airport's location is the equivalent of taking off and landing "in a hole." They argue that the new location will be far more challenging for their pilots and will require expensive use of additional fuel. In addition, some U.S. and international airlines have resisted paying the increased airport fees, but lost their legal challenge to the fee increase (Reftel C). American and Continental had been making their payments to an escrow fund, but now are obliged to pay directly to Quiport, although they characterize their payments as made "under protest."

Comment

¶10. (SBU) The new Quito airport is one of the largest ongoing foreign investments in Ecuador at this time. Under the best of circumstances, large foreign investments face a number of challenges, particularly in the regulated sectors. The Quito airport project is an exception only in that it seems to face criticisms and challenges from more quarters than most other investments. That said, the project continues to move forward and is less than two years from its scheduled opening.

Hodges